



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 12/12/1999

GAIN Report #IT9043

**Italy**

**Wine Competition Annual**

**1999**

Prepared by:

**Elizabeth Berry**

**U.S. Embassy Rome**

Drafted by:

Sandro Perini

---

**Report Highlights: 1999 Italian wine production increased 2% to 57.8 million hectoliters from 1998, although prevailing wet weather in central-northern Italy resulted in lower than usual quality. Wine exports recovered sharply in CY 1998 to 15.6 million hectoliters, mainly due to expanded shipments of table wines, which still account for almost two thirds of total Italian exports. U.S. wine exports to Italy remain limited to smaller quantities of high quality wines.**

---

Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report, IT9043

SECTION I. SITUATION AND OUTLOOK .....	3
SECTION II. STATISTICAL TABLES .....	4
SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY,& MARKETING .....	9
PRODUCTION .....	9
General .....	9
Planted Area .....	11
Distillation .....	11
Prices .....	12
Production Policy .....	13
CONSUMPTION .....	13
INTERNATIONAL TRADE .....	13
FOREIGN MARKET DEVELOPMENT .....	15

## SECTION I. SITUATION AND OUTLOOK

Italian wine production in 1999 is preliminarily estimated at 57.8 million hectoliters, or 2 percent more than last year. Weather conditions have not been, in general, favorable, although the situation varied according to the individual regions. In the north wet weather prevailed during most of both spring and summer, while the sunny and mild September allowed only a partial recovery. In certain southern regions, and in the islands in particular, weather was mainly hot and dry. As a result, the average quality of the 1999 vintage is classified as good, with peaks of very good in limited areas. Controlled appellation wines still represent a minority, or no more than 16 to 18 percent of total wine production, but with much higher shares in the north and minimal production in the south.

Wine acreage continued its downward trend, which began in the late 1970's because of EU regulations that provided incentives for uprooting vines. Current planted area is reported to be about 827,000 hectares. The acreage situation, however, looks now more stable and vine area is not expected to change dramatically in the near future.

The EU distillation programs, aimed at supporting growers' incomes, had been attracting much less wine in recent years compared to the past. In 1998/99 total distilled wine volume was about 4.3 million hectoliters, mostly under the "preventive" distillation program, but could reach 6 million hectoliters in 1999/2000 in line with larger domestic crop.

After long standing discussions, the new CAP for the wine sector was passed last spring with few changes from the earlier proposals. The major concern for the Italian wine industry relates to the changes approved for the distillation programs, introducing a voluntary crisis distillation and removing the previous programs. The Italian wine producers are concerned, while the EU implementing regulation has not yet been issued, about a possible lower income protection system.

Domestic wine consumption, after the dramatic drop reported in the recent past, is now fairly stable. Bulk wine still accounts for most consumption, with appellation of origin wine representing no more than 20 percent of the total.

Italian wine exports increased significantly in 1998 to 15.2 million hectoliters, or 9 percent more than in 1997, mainly thanks to expanded shipments of table wines (+14 percent), which last year represented almost two thirds of the total. The main destinations, as usual, were Germany (36 percent of the total), France (17 percent), the United States (9 percent in volume but 18 percent in value) and the United Kingdom (7 percent). Significant volumes were also exported to Switzerland, Japan, Canada and some eastern European countries.

U.S. wine exports to Italy are marginal and mainly limited to the higher quality wines.

## SECTION II. STATISTICAL TABLES

PSD Table						
Country:	Italy					
Commodity:	Wine					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		9/97		9/98		9/99
TOTAL Grape Crush	0	64221	0	73921	0	75000
Begin Stock (Ctrl App)	0	9040	0	10196	0	10000
Begin Stock (Other)	0	19131	0	17332	0	16644
TOTAL Beginning Stocks	0	28171	0	27528	0	26644
Prod. from Wine Grapes	0	50117	0	56431	0	57400
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	0	50117	0	56431	0	57400
Intra-EU Imports	0	1496	0	670	0	630
Other Imports	0	78	0	79	0	70
TOTAL Imports	0	1574	0	749	0	700
TOTAL SUPPLY	0	79862	0	84708	0	84744
Intra-EU Exports	0	10845	0	14514	0	14600
Other Exports	0	3671	0	3400	0	3400
TOTAL Exports	0	14516	0	17914	0	18000
Dom.Consump(Cntrl App)	0	6542	0	6700	0	6750
Dom.Consump(Other)	0	31276	0	33450	0	34250
TOTAL Dom.Consumption	0	37818	0	40150	0	41000
End Stocks (Cntrl App)	0	10196	0	10000	0	9900
End Stocks (Other)	0	17332	0	16644	0	15844
TOTAL Ending Stocks	0	27528	0	26644	0	25744
TOTAL DISTRIBUTION	0	79862	0	84708	0	84744

<b>ITALIAN EXPORTS OF WINE &amp; MUST</b> <b>QUANTITY</b> <b>(1.000 Hectoliters)</b>							<b>VALUE</b> <b>(Billion Lire)</b>
	1996	1997	1998	1996	1997	1998	
DOC Wines	3669	4019	4141	1560	1822	2047	
- in bottles	3357	3665	3783	1486	1744	1956	
- in bulk	342	354	358	74	78	91	
Sparkling wines	837	866	874	222	229	241	
Other wines	7694	8259	9420	1132	1142	1428	
Spumanti	915	791	756	370	379	384	
Total wines	13415	13935	15191	3284	3572	4100	
Must	524	384	379	115	70	75	
Grand total	13939	14319	15570	3399	3642	4175	

Sources: ISTAT, ISMEA

1 Billion Lire = \$ 648,000 in 1996  
 \$ 587,000 in 1997  
 \$ 575,000 in 1998

<b>ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION</b>						
	<b>Quantity (1000 Hectoliters)</b>			<b>Value (Billion Lire)</b>		
	1996	1997	1998	1996	1997	1998
Grand Total	13415	13935	15191	3284	3572	4100
France	3071	2553	2562	286	212	224
Germany	5075	5536	5448	1174	1254	1322
U.K.	980	994	1093	313	342	392
Belgium-Lux	231	236	251	60	62	68
Netherlands	227	250	274	69	81	83
Denmark	165	128	134	67	57	63
Spain	128	26	695	12	8	77
Portugal	44	39	429	16	15	57
Austria	265	481	400	71	93	129
Other EU countries	220	277	270	81	87	91
Total EU	10406	10520	11555	2149	2211	2506
U.S.	1224	1492	1386	561	686	730
Switzerland	469	514	489	195	215	236
Canada	254	261	337	99	107	142
Japan	167	241	527	95	143	289
Russia	121	50	22	29	25	13
Poland	110	187	226	9	15	17
Czech Rep.	214	217	148	14	13	10
Other countries	450	453	501	133	157	157

Source: ISTAT

1 Billion Lire = \$ 648,000 in 1996  
 \$ 587,000 in 1997  
 \$ 575,000 in 1998

<b>ITALIAN IMPORTS OF WINE, MUST AND MUST</b> <b>QUANTITY</b> <b>(1.000 Hectoliters)</b>							<b>VALUE</b> <b>(Billion Lire)</b>	
	1996	1997	1998	1996	1997	1998		
Total Wines	289	644	863	234	271	340		
- in bottles	62	114	86	41	52	55		
- in bulk	147	453	678	17	40	59		
- sparkling	21	18	19	10	8	9		
- champagne	51	52	62	163	167	212		
- other spumanti	10	7	18	3	4	6		
Must	3	509	209	1	25	11		
Grand total	292	1153	1072	235	296	351		

Sources: ISTAT, ISMEA

1 Billion Lire = \$ 648,000 in 1996  
\$ 587,000 in 1997  
\$ 575,000 in 1998

<b>ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN</b>						
	<b>Quantity (1000 Hectoliters)</b>			<b>Value (Billion Lire)</b>		
	1996	1997	1998	1996	1997	1998
Grand Total	289	644	863	234	271	340
France	150	227	374	188	206	276
Germany	9	10	16	3	4	5
Greece	12	36	78	1	2	20
Spain	43	287	304	7	26	23
Portugal	50	48	42	28	23	3
Other EU countries	10	4	8	3	3	3
Total EU	274	612	822	230	264	332
U.S.	2	2	1	1	1	1
Australia	0	1	0	0	1	0
Other countries	13	29	40	3	5	7

Source: ISTAT

1 Billion Lire = \$ 648,000 in 1996  
 \$ 587,000 in 1997  
 \$ 575,000 in 1998



### SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

#### PRODUCTION

##### General

Italian wine production this year is still preliminarily estimated at 57.8 million hectoliters (MHL), or about 2 percent more than last year's crop. Weather conditions have not been particularly favorable, although the situation varies according to producing areas. In the north, relatively cool and wet weather prevailed during most of both spring and summer, while in some areas of the south, and in particular the islands (Sicily and Sardinia), the weather has been very hot and dry. The sunny and mild September allowed a partial recovery in the northern regions, especially from the quality stand point. Yields, in any case, remained on the average of the last decade, both in terms of grape production, and also regarding the productivity of the grapes into wine. Wet weather in the north caused cases of molds, rotten grapes and mildew, while sugar content in some areas was not as high as in the previous years. As a result, the average quality of the 1999 vintage is classified by most observers as "good" (on a scale which includes "poor", "medium", "good", "very good", and "excellent"), but with peaks of very good and even excellent in limited areas, where the delayed grape harvesting allowed the crop to benefit the good September weather.

While in the last two vintages (1997 and 1998) the best wines were produced in the northwest, the situation this year is not uniform in terms of quality even inside each producing region. In Piedmont, in particular, only the quality of "Dolcetto" is reported as excellent. Good quality is also reported in some areas of Lombardia, Trentino and Veneto, again in northern Italy. In Tuscany, on the other hand, quality is very good for some wines including "Chianti" and "Vernaccia di San Gimignano". In most of the remaining regions of central Italy, as well as the south, quality is classified as normal, with limited cases of a very good vintage.

Wine grape production is present in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

			(1,000 hectoliters)
	1996	1997	1998
Piedmont	3,107	3,405	3,171
Lombardia	1,583	1,665	1,453
Trentino Alto Adige	1,251	1,001	1,204
Veneto	7,861	6,785	8,276
Friuli Venezia Giulia	1,200	1,018	1,224
Emilia Romagna	6,874	4,733	6,494
Other North	206	187	183
Total North	22,082	18,794	22,005
Tuscany	2,873	2,156	2,554
Umbria	919	740	838
Marche	1,747	1,815	1,781
Latium	3,267	2,940	3,305
Total Center	8,806	7,651	8,478
Abruzzi	4,440	4,184	4,256
Campania	2,066	1,971	2,249
Apulia	9,727	7,236	8,166
Other South	1,822	1,594	1,473
Total South	18,055	14,985	16,144
Sicily	9,017	8,073	9,200
Sardinia	584	1,062	1,085
Total Islands	9,601	9,135	10,285
Grand total	58,544	50,565	56,912

Sources: ISTAT ISMEA

As can be seen from the above table, in terms of volume, Sicily, Veneto and Apulia are the leading producing regions followed by Emilia Romagna. These four regions account, on average, for more than half of total Italian wine production. Appellation of Origin wines (DOC wines in Italian) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, there are 290 DOC wines in Italy (up from 284 DOC wines of last year) and 20 DOCG wines (Guaranteed Appellation of Origin), or the same number of last year. This focus on increasing DOC/DOCG wines is part of the overall GOI objective to increase the amount and variety of high quality foods being produced in order to help the Italian agricultural sector compete in a global economy. As part of this objective, in the Seattle Round, the GOI argued for a list of denominations to be recognized by the WTO. While the list would be open to all food products, names of wines would make up a large part of the list.

Many of the most valuable Italian wines are DOCG (i.e. Asti Spumante, Barolo, Barbaresco, Chianti, Brunello di Montalcino). While normal DOC wines can be retailed in containers of up to 60 liters, DOCG wines can only be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. Despite these new entries, however, DOC and DOCG wine production in the most recent years have accounted for no more than 16 to 18 percent of total Italian wine production. This share varies considerably by producing regions, with peaks in Trentino Alto Adige (68 percent in 1996, the latest year for which data are available), Piedmont (60 percent), Friuli Venezia Giulia (57 percent), and Tuscany (44 percent). Minimal levels of these quality wines are produced in the South, where most production is classified as table wine.

#### Planted Area

As already reported in past years, Italian vine area has continuously declined in the last two decades, from the peak of 1.35 million hectares in 1978 to 827,000 hectares of 1998, with even lower estimates from private sources, which indicate for 1998 no more than 789,000 hectares. The regions with the largest drops are Sicily, Tuscany, Sardinia and Apulia, while in the north the decline reported for table wine area has been partially offset by an increase of area planted to DOC and DOCG vines. A major reason for this declining trend was the implementation of the EU legislation, favoring vine uprooting, after the huge surpluses reported during the 80's. The situation is now more stable and total vine area is not expected to change dramatically in the near future. In addition, the new CAP (Common Agricultural Policy) for the wine sector, passed last spring, reinforced for the next ten years a general prohibition of new vine planting, although the new regulations allow a special, limited derogation from this prohibition. As a matter of fact, member countries can grant their farmers special rights for vine re-planting by 2003, aimed at the production of high quality wines. For Italy the permitted area has been fixed at 12,933 hectares, which can be expected to be used in full.

## Distillation

As a result of the massive unsold stocks through the early 90's, the EU implemented large distillation programs to support domestic growers' incomes. In the most recent years, however, a EU wide sharp decline in domestic supplies, along with an improved market situation, has drastically reduced the total amount of distilled wine. The following table shows the quantity, in 1,000 hectoliters, of wine distilled in Italy under these programs during the last few years.

	1993/94	1994/95	1995/96	1996/97	1997/98
Support Dist.	6,015	3,305	916	4,022	4,328
Compulsory Dist.	7,240	333	185	630	21
Total	15,348	3,638	1,101	4,653	4,349

Source: ISMEA

As can be seen, in the last years, compulsory distillation in anticipation of surpluses was practically nonexistent, excluding minor quantities of wine obtained from the dregs of pressed grapes and other byproducts. In 1998/99, the distillation programs attracted a similar quantity of wine, or about 4.3 MHL, while the expected quantity to be distilled during 1999/2000 could reach about 6 MHL, due also to last year's EU decision to increase the maximum quantity of wine eligible for "preventive" distillation. This system is profitable for the producers, particularly in case of market crisis, when the price of wine falls below certain levels.

## Prices

In recent months, the domestic wine market has shown a substantial decline in prices. Last October, according to ISMEA, grower prices averaged some 12 percent lower than one year earlier. The main reasons are connected to the still large stocks of table wines, as well as the further crop increase reported this year. Furthermore, domestic consumption of low quality wines, in particular white, is reported to be decreasing. Finally the export trend in the most recent months, although showing a sharp increase in terms of volume, demonstrated a dramatic decrease of the average export prices for table wines which still represent the major share of Italian wine exports. During the first half of 1999 export prices averaged about 18 percent less than in the same period of 1998, mainly consequent to the large decline reported for table wines (-20 percent) and, at a lesser extent, Spumanti (-7 percent), while export prices of Appellation of origin wines have remained substantially stable. Prospects for the 1999/2000 marketing year are still uncertain, as foreign demand for table wine is still relatively weak.

## Production Policy

After years of discussions, CAP reform for the wine sector, as already mentioned, was approved last March, to be fully implemented as of August 1, 2000. The main target of the new regulations is to balance the market, a target favored in last years by an actual reduction of domestic EU production and the implementation of the uprooting policy. Therefore, as said above, the prohibition of new vine planting has been maintained, although with marginal derogations. Furthermore a special aid, fixed by each member country, for vine uprooting in the marginal surplus areas has been confirmed. Finally, the new CAP removed the "old" distillation programs (compulsory, preventive, etc.), introducing a voluntary "crisis" distillation, whose implementation, however, is still criticized by the Italian wine industry, with the implied lower income guarantee for the producers, particularly for table wines that will possibly no longer be granted a minimum support price. Concerning trade, the only significant measure adopted by the new CAP introduces compulsory labeling for cheap imported wines (or wine obtained from imported musts) in order to avoid market and price erosion of higher quality European wines.

## CONSUMPTION

Domestic wine consumption, following a period of dramatic decline and excluding the quantities utilized for distillation and other industrial uses, has remained in the most recent years fairly stable at around 35 MHL. No more than 20 percent of total domestically consumed wines is controlled appellation wines, while the bulk is still represented by table wines. However, Italian consumers are more and more oriented towards quality wines than in the past. Different life styles, on the other hand, have changed dramatically domestic food habits, limiting wine consumption mainly to special events, as well as dinners rather than luncheons. On a per capita basis, wine consumption is larger in central and northern Italy, while it is lower in the south, due also to different climatic conditions. Concerning marketing channels, according to a recent ISMEA survey, in 1998 about 48 percent of total wine sales has been made in supermarkets, while in 1997 the supermarket share was 44 percent. Considering Spumanti and other bottled wines, the 1998 share of supermarkets was 64 and 59 percent, respectively.

## STOCKS

Year-end stocks reported in the PS&D table are official estimates from Eurostat through 1997/98. As can be seen, stocks in 1998/99 are unofficially reported to be slightly declining, in line with both increased domestic use and higher exports, which more than offset the reported larger domestic crop.

## INTERNATIONAL TRADE

As can be seen from the above trade tables, Italian wine exports, which had already slightly recovered in 1997 after the dramatic 1996 drop, increased significantly in 1998, in terms of both volume (+9 percent) and value (+15 percent). This increase was mainly due to expanded shipments of table wines (+14 percent), which last year still represented over 62 percent (in volume) and about 35 percent (in value) of total Italian wine exports. Exports of bottled DOC and DOCG wines, on the other hand, rose in 1998 by 3 percent in volume and 12 percent in value, thus representing almost half of total Italian wine export value. Exports of Spumanti declined further, following the trend of the previous years, consequent to reduced import demand from eastern European countries, as well as from other EU countries.

As a result, 1998 can be considered a good year for the Italian wine export business, thanks in part to the a strengthened U.S. dollar (helping make Italian wines more competitive), but mainly to the increased quality of the shipments, although a large share of exports is still made up of cheap, low quality wines.

In 1998, Germany confirmed its leading position as the major destination for Italian wines, with about 36 percent and 32 percent respectively in volume and value of total Italian shipments. Almost half (in volume) of total exports to Germany are bulk wines, but bottled wines account for about two thirds of the total in value terms. Exports to France (the second destination in volume terms, with 17 percent of the total), almost exclusively represented by very cheap bulk wines, were virtually unchanged. Export to the United States, the third destination country in quantity, decreased by 7 percent in quantity, but rose by 6 percent in value. In value terms, the U.S. was again the second largest outlet for Italian wines, absorbing about 18 percent of the total. This difference between volume and value reflects the quality of the shipments: exports to France, as mentioned above, are mainly represented by bulk table wines, while about half of Italian shipments to the U.S. are represented by more expensive DOC wines.

The export trend in the most recent months shows a further, significant export expansion: according to ISMEA Italian shipments totaled 8.9 MHL during January-June 1999, or 29 percent more than in the first half of 1998. In value terms, however, exports rose by only 5 percent, as most of the increase was due to a sharp rise (+49 percent) in table wine exports, while shipments of DOC and DOCG wines dropped by 2 percent. The situation differs however, according to the individual destination country, showing a remarkable export growth to France, a significant rise to Germany and a substantial steadiness to the U.S. and UK.

Wine imports into Italy (which account for a negligible share of the total Italian wine market), usually are represented by prestige products (e.g. Champagne, Port and Sherry) from other EU countries. In 1998, however, imports, which had already more than doubled in 1997, further rose by 34 percent in volume and 25 percent in value, mainly due to expanded imports of relatively cheap French and Spanish wines, attracted by the reduced domestic 1997 vintage and relatively high domestic wine prices. This situation was not confirmed in the most recent months: according to ISMEA during January-June 1999 total Italian wine imports totaled only 218,000 hectoliters, or 60 percent less than in the same period of 1998, consequent to both increased Italian wine production and reduced domestic prices.

Shipments from the United States remain minimal, totaling 1,392 hectoliters in 1998, 35 percent less than in 1998, but declining by only 8 percent in value to 1,230 million lire (\$708,000). Because the reputation of quality U.S. wines is growing in Italy, a targeted promotional campaign could help long term development of U.S. wine exports to Italy. However, prospects remain very limited, given the very strong competition from domestic wine production and the recent strength of the dollar.

## FOREIGN MARKET DEVELOPMENT

ICE (Italian Trade Commission), an agency of the Ministry of Foreign Trade, has traditionally been the main institution providing export promotion assistance in foreign markets. In the past, the basic allocation to promote Italian food and agricultural products, including wines, was coming to ICE from funds of the Ministry of Agriculture, along with a minor share coming from the Ministry of Foreign Trade. Current legislation gives basic authority for export promotion to the 20 Italian regions, which autonomously decide if, when and how much to allocate. However, most regions still use ICE as the main means to promote their products abroad, because of their better contacts and understanding of international markets.

Under current legislation there is no specific export promotion program for wine. Instead it is included in the more general promotional programs of Italian foods and beverages. In particular, the Ministry of Agriculture allocated about 10 billion lire (\$5.5 million) in March 1999/February 2000 for Appellation of origin products (to be later increased to 15 billion lire or \$8.3 million in 2000/01), of which approximately one third is spent to promote wines. The major sponsored events include workshops, wine tastings, or point of sale promotions. The main target countries are the U.S., Canada, Japan, Sweden and Denmark. The Ministry of Foreign Trade allocation for the overall agrifood export promotion was 6 billion lire (\$3.3 lire in 1999, to be possibly doubled in 2000. This money is spent almost entirely in fairs, cost sponsoring pavilions with private companies covering their basic cost of participation. In addition the Ministry of Foreign Trade allocated for 1999 13 billion lire or \$7.2 million (14.5 billion lire or \$8 million for 2000) for special programs between the Ministry and the regions, on a 50/50 cost size basis. On a rough average, about one fifth of total expenditures is estimated to be spent for wine. The Regions share 50% of the cost with the individual export companies that participate in the program.

The only wine specific program is provided by the Ministry of Foreign Trade which allocated 700 million lire (about \$380,000) in 1998 for wine promotion abroad. The scarcity of resources is compelling ICE to restrict its activities to financing trade teams, particularly reporters from specialized press, to Italy (possibly co-sponsored by the local industry), organizing wine tastings and, when possible, participating in trade shows.